



Hong Kong General Chamber of Commerce
香港總商會 1861

香港總商會
香港金鐘道統一中心廿二樓
Hong Kong General Chamber of Commerce
22/F United Centre,
95 Queensway, Hong Kong
Tel (852) 2529 9229
Fax (852) 2527 9843
Email chamber@chamber.org.hk
www.chamber.org.hk

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Professor Anthony Cheung, GBS, JP
Secretary for Transport and Housing
Transport and Housing Bureau
22/F, East Wing, Central Government Offices
2 Tim Mei Avenue, Tamar, Hong Kong

Dear Anthony,

Developing Hong Kong's Port, Maritime and Logistics Capabilities

The Hong Kong General Chamber of Commerce writes to express its appreciation for the Administration's recognition of the need to further develop Hong Kong's port, maritime and logistics ("PML") capabilities. We are encouraged by the proposal of setting up a new statutory maritime body announced in the Policy Address, as well as the policy initiative to consolidate the existing backup sites around Kwai Chung and Tsing Yi Container Terminals for the port and logistics industry, which have long been advocated by the Chamber.

Recent industry data shows that 70% of container throughput at Kwai Tsing Port is transshipment. While sufficient on-dock container land and barge berths are affecting the optimal operation of the port, the shortfall in facilities, if unaddressed, will make it difficult to accommodate the growing calls of mega vessels. The challenge is imminent, as transshipment activities and volumes are discretionary and shipping lines can easily transfer their operations to competing regional locations.

To deal with the issue, the Chamber and the industry have called for the rationalisation of external port back-up land and development of additional barge berth facilities. With significant inputs from the expertise of our Shipping and Transport Committee, the Chamber submitted the attached policy paper to the Working Group on Transportation of the Economic Development Commission late last year. We hope that our recommendations, which cover a wide range of PML issues, are taken as priorities in the process of policy formulation.

Thank you.

Yours sincerely



Shirley Yuen
CEO

Recommendations by the Hong Kong General Chamber of Commerce on Developing Hong Kong's Port, Maritime and Logistics Capabilities

1. The Hong Kong General Chamber of Commerce (“HKGCC”) appreciates the HKSAR Government’s recognition of the need to further develop the capabilities of the port, maritime and logistics (“PML”) sectors. We are glad that the Working Group on Transportation has been set up under the Economic Development Commission to contribute ideas/strategies to achieve this aim. The HKGCC, aided by its Shipping and Transport Committee, would like to offer its advice on possible policy directions for realizing the Chief Executive’s vision of enhancing Hong Kong’s economic development with the support of the PML sectors. The following recommendations are for the Working Group’s consideration:

Designating Leadership and Centralized Authority

2. **The HKSAR Government should appoint a dedicated Policy Secretary with broad policy responsibility for PML issues**, as recommended in the HKGCC’s combined submission on the 2013 Policy Address and Budget. Hong Kong’s position as the premier maritime and aviation cluster in Asia needs to be proactively supported through designated leadership. We believe that such structural design is fundamental to the realisation of the Chief Executive’s vision of enhancing Hong Kong’s competitive advantage as a leading PML hub. As a one-stop shop, the centralized authority would have the key responsibility of coordinating with other government agencies to anticipate, plan and address the needs and issues of the PML sectors over the short and long term, from land and labour supply, infrastructure development and business facilitation, to strategic policy directions.

3. **As an interim measure, the portfolio for international transport should be re-assigned from the Transport and Housing Bureau (“THB”) to the Commerce and Economic Development Bureau.** The coverage of the PML sectors is completely different from that of local mass transport and public housing. Consequently, PML development and related issues such as the international perspective of issues concerned have been neglected under the present administrative structure. We recognize that government restructuring takes time, and thus such an interim arrangement will be more aligned to the international character of the PML sectors.

Developing Territory-wide Land Supply Strategy for PML Sectors

4. **The Government should allow a rationalization of Kwai Tsing Port in order to maximise container throughput capacity and efficiency of existing port facilities.** The availability of land is the most critical factor for effective port operation. The shortfall of container terminal storage yard land area in the Kwai Tsing Port is currently at 40% when measured against terminal berth length using the internationally recognized ratio required for optimal performance of 25 hectares per 400 meters of berth. This deficiency can be substantially alleviated by incorporating 60 hectares of adjacent land into the terminal yard areas.

Unfortunately, the THB and Lands Department continue to rent out the adjacent land for multiple uses not directly related to the container terminal operations which do not have to be located next to the container terminals. The objective of a sound land supply policy should be allocating land based on the priority need for optimal area and location rather than dividing small, odd shaped land areas amongst a wide range of different uses.

The Government should provide longer land leases to port operators for specific land areas to facilitate the rationalization of Kwai Tsing Port operations. The current practice of leasing adjacent land on a short-term tenancy basis for 3 or 5 years is inappropriate, as it prevents port operators from making long-term investments in fitting out works and additional cranes essential to maximize container handling throughput capacity and increase operating efficiency. Sites adjacent to the container terminals should be a) offdock: rented to the container terminal operators initially on 10 year leases with an option for longer term use if justified by growth in demand for container handling throughput and investment made in the site; and b) ondock: reviewed whether changes can be made to traffic flows/roads to allow space to become ondock and to reduce environmental footprint from double handling to offdock sites, and investment in environmentally optimal equipment.

5. The Government should provide more land at lower cost and appropriate plot ratios for logistics operations in the outer New Territories in addition to those land parcels released for logistics close to the River Trade Terminal (“RTT”) in Tuen Mun and Yuen Long. This new land supply should be around infrastructure nodes, allowing rapid access to major highways for trucks and where residential development may not be appropriate. As there has been a significant shift of transportation infrastructure development in Hong Kong to the west with the developments of the Hong Kong/Macau/Zhuhai Bridge, Airport/Tuen Mun Tunnel and the connection with Shenzhen Bay, there will be increasing transportation needs via Tuen Mun and Tin Shui Wai access.

6. We support the development of the fourth industrial estate in the New Territories, in which smaller land parcels could be offered to cater for small-medium sized enterprises and ready-built factories could be incorporated to lease (not the ownership model which applies now). It is important to remove some of the existing admission criteria to accommodate businesses with lower investment amounts, including truck and bus repair, and construction-related businesses.

7. The Government should accelerate the re-designation of industrial land with highway connectivity for warehousing and distribution activities. There is a need to re-designate industrial zoned land, which is no longer suitable for industrial use, to business operations requiring connectivity to the ports, airport and border crossings. This process can be quickened by offering incentives to allow conversion of some of the sites held under old grants for manufacture and associated activities. Such measures will alleviate the shortage of land for the logistics industry as some pieces of lands in Tsuen Wan and Kwai Chung have been re-designated for other uses.

Strengthening Hong Kong's Competitiveness in Transshipment

Sea Cargo and Barging Activities

8. **The Government should conduct an overall strategic review of how to better utilize the existing facilities and resources to support the positioning of Hong Kong as a transshipment hub in Southern China and Asia Pacific markets.** Recent throughput data shows that 70% of container handling throughput at Kwai Tsing Port is transshipment. Both intra Asia and Pearl River barge transshipment volumes are the only segments growing. Transshipment activities and volumes are discretionary and shipping lines can easily transfer their transshipment operations to competing regional locations, such as Singapore, Malaysia, Taiwan and Korea. In recent years, significant investment has been made in upgrading Kwai Tsing Port's quayside facilities to cater for an increasing number of mega-vessels into east/west trading routes, calling Hong Kong for transshipment services. RTT operators have not been able to make the needed changes to yard storage and barge handling facilities, which has increased operating cost and lowered service quality. Consequently, to meet this challenge, Kwai Tsing Container Terminals must reduce its cost of operations by rationalizing its container terminal operations with enlarged storage yard areas and additional barge berth facilities within the terminals.

9. Kwai Tsing Container Terminals do not have sufficient dedicated barge berthing facilities based on the current level of barge calls. As a result, Pearl River Delta ("PRD") barges frequently have long waits to access berths at terminals. Therefore, in order to accommodate growth in barge volumes the Government should:

9.1 **Further develop the remaining shore-line sites adjacent to CT8/CT9 under the Stonecutters Bridge, Marine Basin, and to the north of CT5 and CT9 with more permanent on-dock barge facilities for container terminals to reduce costs and enhance service;**

9.2 **Allow better usage of the RTT to speed up the transshipment process.** The RTT, designed as a barge consolidation center by the Government 15 years ago, is seriously under-utilized. Relaxing or modifying existing usage restrictions could provide part of the solution to the problem; and

9.3 **Strengthen container operating services to support terminal operations.** This can be achieved through support for midstream operators by providing additional anchorage areas close to shore facilities in order to reduce transportation costs.

Air Cargo

10. **A decision on the third runway is urgently needed to accommodate the long-term capacity requirements of the Hong Kong International Airport**

(“HKIA”). The world-class HKIA has been crucial in helping build up Hong Kong’s role as an international business hub and home to some 3,500 regional headquarters of international companies. While it is expected that the HKIA will reach saturation before the proposed third runway is completed, our competing hubs in the region have been continuing to plan for more runways and infrastructures that can help them capture the projected traffic growth. Without the third runway, capacity constraints will ultimately eliminate growth and suffocate an industry that provides 8% of the city’s jobs and contributes some 8% of our GDP. Facing with the challenges, it is imperative that government policies should aim at retaining our competitive edge in this regard and expediting the development process.

11. In terms of air cargo, **we recommend that the Government should review and amend the Import and Export Ordinance to accommodate the unique nature of transshipment cargo.** Currently, our development as an air cargo hub is constrained by the fact that transshipments (including cargo trucked across the border with the Mainland), which account for 85% of the HKIA’s cargo throughput, are treated as both import and re-export cargo in Hong Kong. As a result, the transshipment process is complicated by additional paperwork and time-consuming procedures for controlled items. These put the HKIA in a distinct disadvantage when comparing to the free trade zone treatments in place in competing hubs like Singapore, Seoul, Taipei and Guangzhou. To strike for a balance between the control of strategic commodities and enhancement of Hong Kong’s cargo hub status, we recommend that:

11.1 **Cargos arrive by air and do not leave the airport secure zone should be exempted from normal import and export processing requirements.**

11.2 Before the Ordinance can be amended, **an interim solution would be to issue “block” permits to regular shippers or qualified forwarders and airlines to handle the transshipment of controlled items** instead of requiring a permit for every shipment as is the case now. This is particularly beneficial for time-sensitive shipments such as pharmaceutical products, as the current compliance procedures can lengthen the transit time from hours to days.

11.3 The current **value-based Trade Declaration Charge**, which effectively imposes a transit tax on cargo consolidation and intermodal transshipments, **should be adjusted to either reflect administrative costs only, or preferably be abolished entirely.**

12. **We propose one single government authority/department to monitor compliance for all commodities.** Cargo import and export currently involve several government departments and procedures. To enhance compliance and efficiency, a single monitoring unit is needed, so that Hong Kong’s role as a gateway to and from the PRD will benefit further from the facilitation of intermodal transshipments.

Attracting Commercial Principals and Talents

13. **We recommend that the Government, in consultation with the PML sectors, should introduce a targeted and specific campaign to attract commercial principals to Hong Kong.** Commercial principals, including shipowners, operators, commodity traders and shippers, are the drivers of PML business, who create business opportunities for service companies. The 2003 study conducted for the Port and Maritime Board correctly identified the core of the long-term strategy to strengthen Hong Kong as an international maritime centre being to attract more shipowners and managers to Hong Kong. Service companies, such as bankers, lawyers, ship managers, insurance brokers, shipbrokers, logistics companies and port operators, frequently locate next to where commercial principals are based.

14. **We recommend that the Government should remove the bureaucratic and policy hurdles of employing world-class expertise.** Hong Kong is a world-class maritime logistics centre with the world's fourth largest port, extensive modern logistics handling facilities, extensive ship management activities and a world-class ship registry. Hong Kong should, therefore, be keen to attract and employ world-class expertise to serve the Government and the PML industries.

14.1 Nevertheless, the Government seems to be reluctant to employ experienced local and overseas talent for its departments that deal with PML issues. There are several areas where this lack of talent is failing Hong Kong. For example, the world-class nature of Hong Kong's PML industries brings with it a high level of responsibility to actively contribute and participate in international meetings, whether at the International Maritime Organisation, the International Civil Aviation Organisation, or other international bodies. Besides, an unfortunate lack of expertise in considering the application of regulations, whether local or international, and insufficient knowledge on the intents or spirits of regulations could result in misunderstanding and inappropriate application.

14.2 For the PML industries which are global in nature, companies need to employ a workforce of different nationalities. The ability to recruit and employ foreign and Mainland professionals, as well as the ease of employing Hong Kong residents, is of great importance to these industries. The employment of foreign and Mainland professionals, however, continues to face bureaucratic and policy hurdles, casting a negative light on the attractiveness of setting up PML entities in Hong Kong.

Ensuring Sufficient Labour Supply

15. **The Government should establish a centralized body and a versatile manpower platform to assist the PML sectors in recruiting and nurturing its workforce.** Hiring is a recurring concern of the PML sectors, which are often the least favoured among those entering the job market. The general reluctance to

explore employment opportunities in these sectors can be ascribed to an uninformed view that is often based on a poor understanding of the industries as a whole. There are also artificial barriers that contribute to the recruitment difficulties experienced by PML operators. We are encouraged by the Financial Secretary's decision to allocate \$100 million for funding maritime and aviation training in his recent Budget, and we would like to suggest that part of the monies should be used for establishing the centralized body and the versatile manpower platform in order to assist (1) training institutions in coordinating education and training courses for the PML sectors and designing market-oriented courses, (2) employers in recruiting qualified workers, and (3) students in obtaining a better understanding of the diverse opportunities on offer in the PML industries. In operational level, the Government should relax some restrictions on labour training, such as the licensing regulations for training internal terminal truck drivers, to provide flexibility of utilizing internal manpower at Kwai Tsing Port to be trained for driving trucks within the container terminals, similar to practices adopted by the Port of Singapore.

16. **The Government needs to work with companies operating in the airport to ensure an adequate and stable supply of manpower resources for the aviation industry.** The third runway would bring many direct benefits, including new direct employment of 140,000 people, among which over 75% are entry-level jobs. These benefits would also ripple throughout the Hong Kong economy. However, in the service industry, numbers and quality of people are keys to success. The experience of a traveler is the result of a combination of factors, including airlines, ground services providers, airport, and government authorities - all of which very much rely on people. Any shortage in one area of the service chain could lead to a service failure for the 150,000 passengers who fly in and out of Hong Kong every day.

17. We also suggest that **serious consideration should be given to the importation of labour as a contingency measure**, in the event that all available options to recruit and retain workforce locally have been exhausted.

Speeding Up Double Taxation Negotiations

18. **The Government should speed up negotiations with major jurisdictions where Hong Kong shipping companies are experiencing difficulties with issues of double taxation.** Although it is recognised that the Government is doing its utmost to cultivate a larger network of Comprehensive Double Taxation Agreements ("CDTAs"), progress has been slow with only 29 treaties concluded to date. In addition to the foregoing, Hong Kong has entered into limited DTAs with 11 jurisdictions on shipping and/or airline services activities. Compared with its regional competitors such as Singapore, Hong Kong is a laggard in the number of DTAs concluded. This lack of DTAs impinges on the ability of shipping companies in Hong Kong to compete internationally because of the imposition of higher tax and administrative burden when they operate overseas. Given the less rigorous demand on exchange of information provisions associated with limited DTAs, we suggest that the Government should give priority to the conclusion of this category of DTAs.

Supporting PML Green Investments

19. **The Government should provide further incentives to support the PML sectors investing in green initiatives.** The PML sectors are collectively in support of and committed to the reduction of their air emission footprint. This is best exemplified by the ‘Fair Winds Charter’, a voluntary scheme initiated by shipping lines to switch to cleaner fuels when berthing at container terminals. The Scheme has received support from the Government in the form of a finite incentive programme, under which ocean-going vessels using low sulphur diesel can enjoy a 50% reduction in port facilities and light dues. To encourage participation of operators, the Government should simplify the application procedure for the subsidies. Further incentives, and/or subsidies under a specific timeframe, should be considered to enhance collaboration within the sector while maintaining their competitiveness in the region.

20. **The Government should take the initiative in lobbying the Central Government for joint implementation of “fuel switch at berth” in the PRD waters.** We are very grateful to hear that the Panel on Environmental Affairs of the Legislative Council (“LegCo”) has supported the proposal of mandating fuel switch at berth, and prepared to table the new regulation to the LegCo for scrutiny in late 2013/early 2014. In any event, to be successful, the Government should intensify efforts to arrange a South China Emissions Control Area with the Guangdong authorities both for land and marine activities.

21. On local perspective, we are pleased that the Chief Executive has proposed setting aside \$10 billion as subsidies to progressively phase out heavily polluting pre-Euro IV diesel commercial vehicles. The programme should be implemented enthusiastically. As quite a number of commercial boats with old engines and high emissions are operating in Hong Kong waters, the Government should consider a similar subsidy scheme to encourage owners to replace those polluting engines.

Others

22. The Government should proceed with dredging and widening the Castle Peak Channel to enhance the safe operation and efficiency of the western traffic.

23. The Government should undertake a review of moorings and berthing facilities for pleasure craft, unmanned small vessels, as well as means of access between shore and the vessels, in order to determine how to satisfy the need for additional facilities.

24. Given Hong Kong’s ideal geographical location in the Asia Pacific region, the Government should look into the high-value opportunity of developing Hong Kong into a business centre for off-shore vessel operators and offshore oil and gas exploration companies.

Conclusion

25. We hope that our suggestions for enhancing the advantages of one of Hong Kong's more enduring pillar industries are useful in the deliberations of the Working Group. The majority of businesses are dependent in one way or another on Hong Kong's competitiveness as a trading centre and it is important that the PML sectors could continue to contribute to the HKSAR's track record of economic success. The HKGCC looks forward to discussing and working closely with the Government on proposals to enhance Hong Kong's role as a PML hub in the region.

HKGCC Secretariat
6 September, 2013